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SUBJECT: SLOVAKIA'S CIVIL AVIATION HITS BOTTOM, FAILS TO BOUNCE

REF: BRATISLAVA 388

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¶1. (SBU) SUMMARY: A toxic brew of incompetence, economic recession and predatory airlines has left Slovakia's airports largely empty and on the verge of financial collapse. Following the failure of discount airline SkyEurope this fall (reftel), Bratislava's airport has watched its passenger levels fall 60% from their peak a year ago, even as it builds a new terminal that will double capacity. Ryanair is the only realistic hope to increase traffic in Bratislava in the near-term, but the low-cost carrier is playing hardball in its negotiations to establish a regional hub. Industry sources believe that the country's other major airport, in the eastern city of Kosice, is in danger of being shut down by its Austrian majority owner. Passenger levels in Kosice are currently less than half what they were a year ago, and airlines have lately been shifting routes to the cheaper Poprad-Tatry airport in northern Slovakia.  
END SUMMARY.

#### A BLEAK OUTLOOK FOR BRATISLAVA AIRPORT

¶2. (SBU) Two years ago, with Slovakia's "economic miracle" boasting double-digit growth and a new highway linking Bratislava and Vienna nearing completion, the government-owned Bratislava Airport decided to double its capacity by building a new passenger terminal at a cost of 100 million euros. The airport, whose volume had grown six-fold since 2002, saw an opportunity to position itself as a low-cost competitor to Vienna's airport, reasoning that Vienna residents would be willing to drive an extra 45 minutes for lower fares. According to Zdenek Schraml, CEO and Chairman of the airport's Board of Directors, this hasn't happened. Schraml told us that "very few" Austrians fly out of Bratislava and there is little likelihood that this will change anytime soon, adding that he believes the Slovak government should give up its "unrealistic dream" of Bratislava becoming an international air hub.

¶3. (SBU) Schraml presented an astonishingly bleak outlook for the airport, which in recent months has seen its first and third-largest tenants--SkyEurope and Seagle Air--cease flying. Although numerous airlines announced the intention to add Bratislava routes in the weeks after SkyEurope's failure, Schraml told us that Ryanair is his only remaining hope. Budapest-based Wizz Air had appeared likely to take over many of SkyEurope's routes, but Schraml told us that they suddenly and

without explanation withdrew their interest last month. The airline went even further just yesterday, announcing that it will cease to operate out of Bratislava entirely. Several knowledgeable industry sources have told us that Ryanair and Wizz Air, which reportedly have some common investors, have agreed not to compete against each other in Bratislava.

14. (SBU) Further complicating matters for the airport, its outdated facilities leave it completely unable to attract cargo or long-haul flights. Schraml told us the Slovak government failed to realize that the expanded capacity of the new terminal would also require increased apron and hangar space, along with other infrastructure improvements. The airport's longest runway, at 3200 meters, is too short for most cargo flights, leaving it unable to compete with Vienna's airport for this lucrative sector. Schraml claimed that the airport needs 300 million Euros in capital improvements--above and beyond the new passenger terminal--and there is currently no financing available for any of this, either from the Slovak government or the EU. Even worse, Vienna is building a new terminal of its own (although construction has been stalled since the summer) that would vastly increase the airport's capacity when completed, further weakening Bratislava's position.

15. (SBU) According to Schraml, Ryanair has taken full advantage of its dominant bargaining position. He told us that while the airline is clearly interested in establishing a hub in Bratislava, their negotiating strategy has been to keep the airport off-balance by saying contradictory things and remaining silent for months at a time. Ryanair has yet to respond to the airport's three-month-old letter asking what airfield improvements it would need in order to establish a base in Bratislava--but the airline did find time a few weeks ago to negotiate through the local media by planting news articles apparently intended to pressure the airport to cut its landing fees by as much as 70%. Schraml told us that he is unable to negotiate effectively with Ryanair because he doesn't even know

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what they want.

#### GROWTH IN AN UNLIKELY PLACE

16. (SBU) The one bright spot for Slovak aviation has been the expansion of local airline Danube Wings into some of the markets previously served by SkyEurope. Interestingly, the upstart airline has largely ignored the Bratislava and Kosice airports, instead concentrating its operations at the much smaller government-owned Poprad-Tatry regional airport, located in northern Slovakia at the base of the Tatra mountains. Many in the aviation sector are skeptical that the Danube Wings business model can work. Tomas Kika, former Spokesman for SkyEurope, told us that the planes flying Danube Wings' longer routes, such as Poprad-Manchester, are largely empty, and the company survives only because it is being subsidized by Eurofunds. Arpad Agocz, the Commercial Director of Danube Wings, admitted to us that the airline receives support from "regional" sources, but he declined to tell from whom or how much.

17. (SBU) A former SkyEurope pilot who remains active in the domestic aviation sector told us that Danube Wings cut its salaries by 30% several weeks ago, and he expressed doubt that the airline would survive the winter, even though this is presumably its high season. Agocz, on the other hand, was very upbeat about the company's outlook, although it should be noted that much of Danube Wings' strategy as he presented it seems to rely on a partnership with Czech Air, a company with more than its own share of problems.

18. (SBU) Schraml, who was formerly Director of Privatization at the Ministry of Transport, told us that privatization of Bratislava Airport is "probably the only answer," although he added that there is no indication that the government is willing to do this. Kosice's airport, for its part, has had a disastrous experience since being partially privatized several

years ago. It relied far too heavily on SkyEurope, which at the beginning of this year accounted for 2/3 of the airport's passenger traffic. Already ill-equipped to deal with SkyEurope's failure, the Kosice airport was dealt a further blow when around the same time Poprad-Tatry slashed its landing fees and began to compete for the remaining carriers serving the Slovak market. Poprad, a dingy town about two hours by car from Kosice that serves as the gateway to the Tatra ski resorts, is the only other viable commercial airport in the area. By all accounts, the Kosice airport has been very slow to respond, and Profit Magazine air industry analyst Jan Blazej told us that it is quite possible it will be forced to close.

#### COMMENT

¶9. (SBU) It seems almost inevitable that Slovakia's aviation sector will soon be dominated by Ryanair, which is clearly biding its time while domestic pressure builds and the government becomes desperate to bring traffic to the gleaming new terminal in Bratislava. The irony for PM Robert Fico is that by halting the planned privatization of the airport several years ago, he has actually weakened its bargaining position--Ryanair undoubtedly realizes that it can make expensive and onerous demands of the Slovak government to which a private owner could never afford to agree. The government has already taken considerable criticism for renewing SkyEurope's license shortly before it shut down, a decision which allowed the airline to book flights through the spring of 2010, ultimately leaving customers holding 280,000 worthless tickets. Given all the pressures on the government, it seems likely that it will ultimately accede to whatever Ryanair demands, and Slovakia will once again enjoy a full slate of international routes from Bratislava--although only at great hidden cost to Slovak taxpayers.

¶10. (SBU) As for the Kosice airport: should the worst come to pass, it seems unlikely the Slovak government would allow it to remain closed for long--in fact, Fico may secretly hope that it will go out of business so that it might be renationalized and reopened under government control. Eastern Slovakia has largely been left out of the Slovak economic miracle, in no small part because of its problematic transportation ties with western Slovakia and Europe beyond. The loss of its commercial air links would make the situation far worse, and it is unlikely

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that Fico would allow that to happen.  
EDDINS